

While the Thomson letter supports the CHX's efforts to shorten the settlement cycle for securities transactions, Thomson believes that the CHX should amend Article XV, Rule 5, which requires the use of the facilities of a securities depository for the confirmation and acknowledgement of all depository-eligible transactions whereby payment for securities purchased or delivery of securities sold is to be made to or by an agent of the customer. The Commission believes that the issue raised by the Thomson letter need not be resolved prior to the approval of the proposed rule change. Discussions regarding Thomson's concerns are underway among the Commission, Thomson, DTC, and the Securities Industry Association. The Commission will continue to work with the industry to address Thomson's concerns. However, if the proposed rule change is not approved prior to the June 7, 1995, effective date of Rule 15c6-1, the CHX rules will conflict with the Commission Rule 15c6-1.

The Thomson letter suggests that approval of the proposed rule change without amendments to Article XV, Rule 5 raises competitive concerns. Under the Act, the Commission's responsibility is to balance the perceived anticompetitive effects of a regulatory policy or decision against the purpose of the Act that would be advanced by the policy or decisions and the costs associated therewith. The Commission notes that the anticompetitive effects pointed to by Thomson, if in fact there are any anticompetitive effects, are not caused by the proposed rule change approved by this order but rather by an existing CHX rule. The Commission is reviewing Thomson's claim but does not believe that approval of this proposal will itself create any burdens on competition. Moreover, as discussed above, the rule advances fundamental purposes under the Act, namely the efficient clearance and settlement of securities.

IV. Conclusion

For the reasons stated above, the Commission finds that CHX's proposal is consistent with Section 6 of the Act.¹⁰

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,¹¹ that the proposed rule change (File No. SR-

CHX-94-26) be and hereby is approved, effective June 7, 1995.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹²

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-35557; File No. SR-GSCC-94-10]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Order Approving Proposed Rule Change Relating to Implementing a Comparison Service for Repurchase and Reverse Repurchase Transactions Involving Government Securities as the Underlying Instrument

March 31, 1995.

On December 30, 1994, the Government Securities Clearing Corporation ("GSCC") filed with the Securities and Exchange Commission ("Commission") a proposed rule change (File No. SR-GSCC-94-10) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the **Federal Register** on February 2, 1995.² No comment letters were received regarding the proposed rule change. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

GSCC is amending its rules to provide comparison services for repurchase and reverse repurchase transactions involving government securities as the underlying instrument ("repos"). GSCC ultimately intends to provide comparison, netting, and risk management services for the opening ("on") and closing ("off") legs of all overnight repos (also referred to as next-day repos), term repos (also referred to as forward settling repos), and open repos, including the same-day settling aspects of those repos.³

GSCC will offer its repo services in three phases. The first phase will involve the provision of comparison and

netting services. The pending proposal would authorize GSCC to implement the initial stage of the first phase, which is the provision of comparison services for overnight and term repos whether or not the on leg occurs before, on, or after the submission date.⁴ GSCC will accept and compare data on all of the components of a repo transaction, including information on the on and off legs of a repo, with members providing such data via a single input. The second implementation phase of GSCC's planned repo services will focus on the provision of comparison, netting, and risk management services for open repos. The last phase of GSCC's planned implementation of repo services will focus on providing intraday netting and risk management services for the same-day settling aspects of repo transactions, including settlement of same-day settling start legs and close-outs of open repos.

The Phase 1 comparison process for repos is substantially similar to the comparison process offered by GSCC today. Each party to a repo will submit its transaction data to GSCC.⁵ As is the case now for non-repo transactions, comparison of a repo trade will occur immediately upon the receipt by GSCC from two members of matching data. If all mandatory data fields that are required to match do in fact match, GSCC will generate a comparison.⁶

If the data on a repo remains uncomparated at end-of-day, the submitter of the repo data will receive a report of an uncomparated trade, and the participant being submitted against will receive an advisory. If a repo transaction has not yet been compared, it may be unilaterally canceled, and the submitter will receive notification of the cancellation. To cancel a repo that has

⁴ GSCC will file proposed rule changes for the authority to implement both the next stage of the first phase of repo services, which is the provision of netting and risk management services for the non-same-day settling aspects of next-day and forward settling repo transactions, and future phases of repo services.

⁵ The proposed rule change establishes a new schedule of required data submission items applicable to all trades. In addition to the items on the schedule of required match data, a member must submit the broker reference number, contra submitting member's executing firm, executing firm, external reference number, price (rate), pricing method, and trade date. These fields are not matched.

⁶ The following items must match for a trade to compare: (1) Contra member identifying information, (2) CUSIP number, (3) member's identifying number, (4) par amount (quantity), (5) settlement amount, (6) settlement date, and (7) transaction type (*i.e.*, buy, sell, repo, or reverse). In addition, these required match data items must match only for repo transactions: (1) start amount (*i.e.*, the contract value for the start leg of the repo transaction) and (2) start date (*i.e.*, the settlement date for the start leg of a repo transaction).

¹² 17 CFR 200.30(a)(12) (1994).

¹⁵ 15 U.S.C. 78s(b)(1) (1988).

² Securities Exchange Act Release No. 35288 (January 27, 1995), 60 FR 6580.

³ GSCC also intends to include such services as the tracking of rate changes and open repo interest, the provision to the funds borrower of coupon protection, the provision to all parties of a comprehensive audit trail for their repo activity, and the monitoring and facilitation of collateral substitutions.

corporation or by a major market participant or end-user could trigger additional failures resulting in risk to the national clearance and settlement system." Securities Exchange Act Release No. 33023 (October 6, 1993), 58 FR 52891.

¹⁰ 15 U.S.C. 78f (1988).

¹¹ 15 U.S.C. 78s(b)(2) (1988).

been compared, bilateral agreement is required. GSCC will delete trade data on repo transactions that remain uncompared from GSCC's comparison system the later of (1) the processing cycle after the second business day after the repo start date or (2) the processing cycle after the second business day after the date of submission of such data.

GSCC comparison output will continue to be available on an on-line basis. To be eligible for comparison, both submitting members must be deemed eligible for repo comparison processing by GSCC. GSCC will make such a determination based on the demonstration by a member of its ability to submit designated input to and receive designated output from GSCC.

The implementation of Phase 1 comparison services for repos requires certain modifications to GSCC's comparison processes. The "transaction type" data field will be expanded to include two additional transaction types: "repo" (designating the side of the repo transaction that is borrowing funds and lending securities) and "revr" (designating the side of the repo transaction that is lending funds and borrowing securities). Repos and reverse repos will compare only with each other and not with buy and sell activity. Two optional data fields have been added to bolster the comparison process for repos, the give-up broker field and the secondary reference number field. Dealer members may use the give-up broker field to identify the broker, if any, used to conduct the repo. GSCC will provide members with a standardized list of brokers for this purpose. The secondary reference number field may be used by dealers to provide additional identification information on the repos.

Two new mandatory match items for repo transactions will be introduced: start date and start amount. The repo start date will indicate the settlement date for the start leg of the repo. The repo start amount will contain the contract value for the start leg of the repo. Initially, a \$1 per repo transaction tolerance for start amount will be established.

The repo rate will be a required submission field but will not be matched. If a participating member does not submit the settlement amount, GSCC will calculate it using the start amount, repo rate, and the number of days from start date to settlement date. Initially, a \$1 per \$1 million tolerance will be established for settlement amount. When the settlement amounts differ, but the difference falls within the tolerance, GSCC will generate the comparison based upon the amount

submitted by the broker (for brokered trades) or upon the amount submitted by the deliverer of the repo close leg.

GSCC currently permits transactions that do not match in a few selected fields to compare in a process referred to as "phased comparison." This program allows those transactions that do not match during real-time comparison to be compared at the end of the day based upon assumptions regarding which party submitted the correct data. Phased comparison of par summarization, settlement amount, and trade date will not apply to repo transactions.⁷ Par summarization is the comparison of a trade based on a match of either the total of the par amounts on two or more buy sides equaling the par amounts on one or more sell sides or the total of the par amounts on two or more sell sides equaling the par amounts on one or more buy sides. The phased comparison tolerance of \$40 per \$1 million for unmatched settlement amounts on buy/sell trades will not apply to repo transactions. This tolerance is used by GSCC in its phased comparison process to account for commission differences.⁸

Phased comparison of the executing firm field and the contra party field will apply to repo transactions. Under phased comparison of the executing firm field, GSCC will compare trades having unmatched executing firm data based upon a match between the participant numbers of the two submitting members. Under phased comparison of the contra party field, GSCC may compare a trade if all details match except the contra party field, and the contra party affiliate submits the matching detail.

II. Discussion

The Commission believes that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder and particularly with the requirements of Section 17A(b)(3)(F).⁹ Section 17A(b)(3)(F) requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to assure the safeguarding of securities and funds which are in the custody or control of the clearing agency or for which it is responsible. The initiation of comparison services for overnight and term repos will begin the process

⁷ Phased comparison of trade date does not apply to repos because trade date is not a mandatory input field for repo comparison.

⁸ However, as noted above, a \$1 per \$1 million tolerance will be applied to settlement amounts during real-time comparison.

⁹ 15 U.S.C. 78q-1(b)(3)(F) (1988).

whereby GSCC will provide the benefits of centralized, automated comparison to a broader segment of government securities transactions.

Encompassing repos in CSCC's automated comparison process will provide industry participants with many benefits, including: (1) Elimination of the need for physical confirmations, (2) timely comparison of repo trade data, (3) enhanced ability for identification and correction of errors, (4) easier recordkeeping, (5) easier access to audit trail information, and (6) on-line inquiry capabilities. The proposal thus enhances the prompt and accurate clearance of repo transactions.

The proposed rule change also will implement a recommendation of the Joint Report on the Government Securities Market.¹⁰ The Joint Report indicated that the market for repurchase and reverse repurchase agreements could benefit from automated comparison. Moreover, the Joint Report noted that automated comparison could enable regulators to obtain data on repos as necessary for surveillance purposes at little or no cost to market participants.¹¹

GSCC noted in its filing that it has two physically-remote data processing sites with redundant hardware configuration. Further GSCC has run a pilot program whereby it collected live data to assess the impact of repo processing on its existing systems. The Commission believes that GSCC's automated facilities are sufficient to implement the comparison services for repos that are approved in this order, and the addition of these services will not diminish GSCC's ability to provide its current services for non-repo transactions in a safe, efficient, and timely manner.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with Section 17A(b)(3)(F) of the Act.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-GSCC-94-10) be, and hereby is approved.

¹⁰ See, Joint Report on the Government Securities Market (January 1992) ("Joint Report"), prepared by the Department of the Treasury, the Securities and Exchange Commission and the Board of Governors of the Federal Reserve System.

¹¹ *Id.* at 31. Activity in the government securities repo market is sizable. Centralized repo processing may give regulators a truer picture not only of the government securities market but also of each market participant's total risk profile, enabling GSCC, other clearing agencies, and regulators to refine their risk reduction policies.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.¹²

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-35552; File No. SR-OCC-94-11]

Self-Regulatory Organizations; The Options Clearing Corporation; Order Approving Proposed Rule Change Relating to Implementation of a Three-Day Settlement Standard

March 30, 1995.

On December 30, 1994, the Options Clearing Corporation ("OCC") filed a proposed rule change (File No. SR-OCC-94-11) with the Securities and Exchange Commission ("Commission") pursuant to Section 19(b) of the Securities Exchange Act of 1934 ("Act").¹ Notice of the proposal was published in the **Federal Register** on February 2, 1995, to solicit comments from interested persons.² As discussed below, this order approves the proposed rule change.

I. Description

The proposed rule change will conform OCC's rules effective June 7, 1995, to Rule 15c6-1 under the Act. That rule establishes three business days after the trade date ("T+3"), instead of five business days ("T+5"), as the standard settlement cycle for most transactions in securities that underlie many OCC issued options. Rule 15c6-1 will become effective June 7, 1995.³ As described below, OCC is revising several of OCC's rules that include references to underlying securities settlement time frames.

Under Rule 902, the assigned clearing member of an exercised call option contract or the exercising clearing member of an exercised put option contract will be required to deliver the underlying securities on the third business day following the day on which the exercise notice was given to OCC. Rule 2207 will provide that the settlement date for a stock loan will be three business days after the date on which the lending clearing member initiates the termination by notifying

OCC. Rule 2208(b) will provide that if the lending clearing member initiates the termination of a stock loan and does not receive the loaned stock in its securities depository account within three business days, the stock loan shall be completed when (1) OCC has transferred the stock to the lending clearing member's account after OCC has received the securities from the borrowing member or (2) the lending clearing member has executed a buy-in. Rule 2208(b) also will provide that the lending clearing member may execute a buy-in three business days after initiating the termination or at any time thereafter if the lending clearing member has not received the loaned stock by such date.

OCC has requested that the proposed rule change become effective on the same date as Rule 15c6-1. Rule 15c6-1 is scheduled to become effective on June 7, 1995.⁴

II. Discussion

The Commission believes the proposal is consistent with the requirements of Section 17A of the Act.⁵ Specifically, Section 17A(b)(3)(F)⁶ states that the rules of a clearing agency must be designed to promote the prompt and accurate clearance and settlement of securities transactions, to assure the safeguarding of securities and funds which are in OCC's custody and control or for which OCC is responsible, and to foster cooperation and coordination with persons engaged in clearance and settlement of securities transactions. Several of OCC rules are based on a five day time frame for settlement of securities transactions. On June 7, 1995, the new settlement cycle or T+3 will be established, as mandated by the Commission's Rule 15c6-1. As a result, the OCC's current rule establishing a T+5 settlement cycle will be inconsistent with Commission rules. This proposal will amend the OCC's rules to harmonize them with a T+3 settlement cycle. Further, as discussed in the release adopting Rule 15c6-1, a shorter settlement time frame could encourage greater efficiency in clearing agencies and broker-dealer operations. Thus, the proposed rule change should enhance the prompt and accurate

clearance and settlement of securities transactions.

III. Conclusion

For the reasons stated above, the Commission finds that OCC's proposal is consistent with Section 17A of the Act.⁷

It is therefore ordered, pursuant to Section 19(b)(2) of the Act,⁸ that the proposed rule change (File No. SR-OCC-94-11) be and hereby is approved and will become effective June 7, 1995.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁹

Margaret H. McFarland,

Deputy Secretary.

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[Release No. IC-20979; 812-9444]

Van Kampen Merritt Equity Opportunity Trust, Series, 7, et al.; Notice of Application

March, 30, 1995.

AGENCY: Securities and Exchange Commission ("SEC").

ACTION: Notice of Application for Exemption under the Investment Company Act of 1940 (the "Act").

APPLICANTS: Van Kampen Merritt Equity Opportunity Trust, Series 7 and Van Kampen American Capital Distributors, Inc. ("Van Kampen American").

RELEVANT ACT SECTIONS: Order requested under sections 6(c) and 17(b) from section 17(a).

SUMMARY OF APPLICATION: Applicants request an order to permit a terminating series of a unit investment trust to sell portfolio securities to a new series of the trust.

FILING DATES: The application was filed on January 25, 1995 and amended on March 22, 1995.

HEARING OR NOTIFICATION OF HEARING: An order granting the application will be issued unless the SEC orders a hearing. Interested persons may request a hearing by writing to the SEC's Secretary and serving applicants with a copy of the request, personally or by mail. Hearing requests should be received by the SEC by 5:30 p.m. on April 24, 1995 and should be accompanied by proof of service on applicants, in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature

⁷ 15 U.S.C. 78f (1988).

⁸ 15 U.S.C. 78s(b)(2) (1988).

⁹ 17 CFR 200.30(a)(12) (1994).

¹² 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b) (1988).

² Securities Exchange Act Release No. 35265 (January 23, 1995), 60 FR 6583.

³ Securities Exchange Act Release Nos. 33023 (October 6, 1993), 58 FR 52891 (adoption of Rule 15c6-1) and 34952 (November 9, 1994), 59 FR 59137 (changing effective date from June 1, 1995, to June 7, 1995).

⁴ The transition from T+5 settlement to T+3 settlement will occur over a four day period. Friday, June 2, will be the last trading day with five business day settlement. Monday, June 5, and Tuesday, June 6, will be trading days with four business day settlement. Wednesday, June 7, will be the first trading day with three business day settlement. As a result, trades from June 2 and June 5 will settle on Friday, June 9. Trades from June 6 and June 7 will settle on Monday, June 12.

⁵ 15 U.S.C. 79q-1 (1988).

⁶ 15 U.S.C. 78q-1(b)(3)(F) (1988).